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SUBJECT: DOMINICAN ELECTION SERIES #43: PLD CANDIDATE  
FERNANDEZ LOOKS TO ECONOMIST INTELLIGENCE UNIT FOR POLICY  
PRESCRIPTIONS

REF: SANTO DOMINGO XX AND PREVIOUS

[1](#)1. (SBU) This is cable # 43 in our series on the Dominican elections.

PLD CANDIDATE FERNANDEZ LOOKS TO EIU FOR POLICY PRESCRIPTIONS

Judging from the consultant company he keeps, PLD candidate Leonel Fernandez is anything but a radical in economic matters. Rather than rely exclusively on in-house PLD economists -- a small group, some of whom are experienced and capable -- he turned at the outset of the campaign to the thoroughly orthodox "Economist Intelligence Unit" for policy prescriptions.

Fernandez recently provided to us a 113-page study entitled "The Dominican Republic: Towards a New Development Model." The Democracy and Development Global Foundation (FUNDGLODE), headed by Fernandez, contracted the Economist Intelligence Unit (EIU) to conduct the study, which was completed in January. The document outlines some of the factors that the EIU concluded led to the Dominican Republic's recent economic crisis, suggests possible measures to ameliorate the short-term consequences, and looks at longer-term solutions to improve prospects for sustainable development. The policy prescriptions are largely based on case studies of countries that have faced similar challenges. The guidance looks similar to principles the International Monetary Fund applies in its programs and argues for greater economic liberalization. Leonel has turned to the EIU for advice -- and that the advice he has received appears consistent with the our broad policy objectives.

Fernandez founded FUNGLODE as a think tank and research center following his presidency (1996 to 2000). Though the organization asserts political independence and claims to be non-partisan, Fernandez presides and it is closely identified with the PLD. In an April 21 speech at an American Chamber of Commerce Luncheon, Fernandez cited the EIU study and said that he had circulated it among business leaders for comment. He said that if he were elected, in the first 100 days he would convene a crisis-management team to design a plan to restore confidence and that Columbia University's Jeffrey Sachs and other representatives from Columbia and Harvard would be part of the team. (Sachs spoke at a FUNGLODE luncheon last spring that Fernandez hosted.)

Fernandez pointed to South Korea's crisis-management plan following the 1997-1998 Asian Crisis, which the EIU study presented as an example. Fernandez said he would soon publish the study for broader distribution and invite business, religious and other community leaders to discuss recommendations. The EIU's conclusions may provide insight into what economic policy under a new Fernandez administration might look like.

The EIU recommendations for the Dominican Republic covered a broad array of issues and included examples of countries that managed short-term crises and of others that made long-term adjustments. Some of the study's short-term conclusions for the Dominican Republic can be summarized as follows:

-- Adherence to IMF targets increases access to funds, supports investor confidence, provides basis for macro-economic stability, decreases vulnerability to shocks, and strengthens the domestic banking sector;

-- Re-privatization of national assets provides immediate revenue but requires sound regulatory framework.

-- Resolution of economic and social problems must be given priority over political motivations.

-- Anti-corruption efforts are crucial.

-- Authorities must educate the public on benefits of cutting the public sector and privatizing state assets.

-- A stable and proactive debt-management program should be implemented.

-- Energy issues can be tackled through emergency measures, increased private sector participation, and establishment of strong regulatory framework.

-- The country should strengthen weakened banking systems and take advantage of technical assistance to meet international standards.

-- A new administration should adopt measures to stimulate private sector development to restart the economy.

-- Public relations are important -- a new government must establish strong communication channels and a public relations strategy for dealing with investors and keeping them informed.

The EIU study presents a blueprint for a longer term economic model also. Some of the recommendations include:

-- Encourage competition and phase out subsidies in the energy sector;

-- Avoid excessive reliance on free zones and tourism enclaves that can distort the economy and concentrate benefits that don't help with broader development of communities or the country.

-- Liberalize trade and competition by reducing import duties;

-- Diversify crops and adopt country/sector branding;

-- Increase competition and regulatory supervision in banking and financial sector and establish risk-based early-warning system to identify vulnerable institutions;and

-- Support small and medium-sized enterprises (SMEs).

The report addresses other long-term issues such as investment in human capital through improved healthcare and social security, poverty reduction, and investment in information technologies. It notes that the Dominican Republic has performed poorly in each of those areas.

Compared with the PLD platform --

The PLD's economic platform, introduced last month, largely mirrors the EIU study, while explicitly blaming the ruling PRD for upsetting the economic stability and sustained growth achieved while Fernandez was President. The PLD asserts that under the PRD there has been increased unemployment, accelerated government spending, an unchecked policy of internal and external borrowing, and mismanagement of the banking crisis, all of which led to "negative performance during these last years." The Party platform lists ambitious objectives in broad terms and delineates strategies -- which are stated as broad objectives themselves, in most instances lacking specifics. The economic platform covers macroeconomic policy, the industrial sector, tourism, agriculture, and sugar.

Although the PLD macroeconomic policy calls for fiscal austerity, tax reform, sustainable debt, strict monetary policy, and a market-based exchange rate, it makes only veiled reference to the International Monetary Fund standby agreement.

On trade, the PLD calls for increased competitiveness and continuation of the competitiveness program initiated under Mejia. Similarly, on tariffs, the platform sets an objective of establishing a tariff regimen "adjusted to the situation of openness."

Of possible concern for the multilateral trade agenda, the platform calls for renewing the strategic alliances and guarding the interests of small economies in all of the trade negotiating forums, and reintegrating the country into CARICOM's "regional negotiating machinery."

Brain and Heart

Throughout the campaign, Fernandez has sought to convince prospective voters through his measured, rational analysis of the country's problems. He is thoughtful but not necessarily a deep thinker -- rather, a man ready to listen to expert advice. Recent radio spots have sought to rouse more emotion, featuring particularly a recording of his back-and-forth dialogue with a rally blaming Hipolito for the rise in prices of meat, electricity, fuel and transport. His

slogan promises that "Progress is returning." In his regional journeys Fernandez has met separately with gathering from economic sectors, promising improvements but warning them that he will need a year or more to put the government's house in order.

Assuming that Fernandez eventually wins the foreshadowed victory, he will need both brain and heart -- that is, convincing charisma -- to hold the people's faith long enough for the orthodox prescriptions to work.

12. (U) Drafted by Thomas Pierce.

13. (U) This report and others in our elections series can be consulted on our SIPRNET site <http://www.state.sgov.gov/p/wha/santodomingo/> along with extensive other material.

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